

Opportunities and Challenges of Digital Economy for Micro, Small, and Medium Enterprises Facing Pandemic Covid-19 in Indonesia: A Case Study

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ABSTRACT

This article intends to examine the problems, potential, and challenges that Micro, Small, and Medium Enterprises face in coping with Pandemic COVID-19 in Indonesia, particularly in the Kulon Progo Regency, through the Digital Economy. The digital economy is predicted to promote product and service competitiveness. Indonesia has a Micro, Small, and Medium Enterprises sector that can serve as the backbone of the country's economy and aid in its recovery, despite the economic volatility created by the Covid-19 outbreak. The SWOT analysis suggests that digital use is the most important issue for Micro, Small, and Medium Enterprises in Kulon Progo Regency. According to the survey, only 13% of Micro, Small, and Medium Enterprises use technology to run their enterprises. The digital economy's strength has been demonstrated to be valuable, and its application can improve communication skills, interpersonal skills, and company operations and performance of Micro, Small, and Medium Enterprises.

On the other hand, the flaws are facilities that address the issue of restricted knowledge among players in Micro, Small, and Medium Enterprises. While the possibilities are numerous, many natural resources; many governments' productive human resources; many partners working together to create MSMEs; more than one featured product. Furthermore, the use of the digital economy aids in the development of a country's economy. Finally, market availability is diminished by imported products of superior quality and are often even cheaper. It is a challenge for Micro, Small, and Medium Enterprises, and the government should create a favorable trading environment for them.

Keywords: Covid-19 Pandemic, Digital Economy, Micro, Small, and Medium Enterprises, SWOT Analysis.

1. INTRODUCTION

The COVID-19 epidemic has impacted various industries, including micro, small, and medium-sized enterprises (MSMEs). One of the consequences was an 84.20 percent drop in income, with a drop of 82.29 percent in Large Medium Enterprises [1]. MSMEs have been forced to reduce their workforce as a result of this. The Covid-19 epidemic significantly impacted Indonesia's economic trajectory in 2020, affecting 1,785 cooperatives and 163,731 small and medium enterprises (MSMEs) [2]. The most affected MSME sector is food, beverage, creative industry, and agriculture. As much as 47% of MSMEs have to go out of business because of the pandemic [3]. The Minister of Cooperatives and MSMEs argued that based on the results of a survey conducted by several institutions and the Ministry of SMEs, the virus outbreak has a big impact on the sustainability of SMEs. They must face many problems, which is at this time, most MSMEs are experiencing problems with declining cash flow health, so they have to lay off workers, and so on.

The implementation of development in Kulon Progo Regency, Daerah Istimewa Yogyakarta Province, spans a wide range of fields and sectors to foster a prosperous and just society through good governance and the development of a people's economy, with a focus on small and medium enterprises and cooperatives based on agribusiness [4]. One of the Kulon Progo Regional Government's efforts to improve the community's welfare is strengthening and empowering small businesses. In Kulon Progo Regency, MSMEs are the industrial sectors that absorb the most workforce compared to other industrial sectors. MSMEs also contribute significantly to the formation of Kulon Progo Regency's GRDP, particularly in the agricultural and forestry product processing industries, machinery processing, metals, and chemicals [5].

It has had a huge impact on Indonesia's economy. The COVID-19 virus outbreak has significantly impacted all types of Micro, Small, and Cooperative companies. Sales are down, money is down, orders are down, raw materials are scarce, and bad credit. In a matter of seconds, the economy crumbled. The survey results demonstrate that the company has never suffered difficulties due to the Covid-19 epidemic, even though two out of three enterprises have temporarily or permanently ceased operations due

to a significant drop in revenue [6]. As a result, MSMEs and the government must find the way. Therefore, MSMEs in Indonesia continue to exist and develop.

It is indisputable that everything has gradually evolved towards digital, making human-technology connection unavoidable. From purchasing and selling to services and payment interactions, all fulfillment needs can be met online. Each industrial revolution is built on the utilization of technology [7]. The impact of the fourth industrial revolution is that digital technology is being utilized to allow physical equipment and production systems to communicate with one another [8]. Technology is a key component in the transition of traditional industry to the digital industry, allowing data to be transferred without human intervention and allowing big data to help determine corporate direction.

Various national and local government reports that the development of digital technology will drive Indonesia's economic growth. By 2025, digitization will impact US \$ 150 billion (US) and additional jobs for 3.7 million people [9]. This potential is evident from the number of startup technology companies (referred to as startups) that have grown significantly. Indonesian startups grew from 1,400 in 2017 to 2,200 in 2019 - this figure puts Indonesia in 2nd in Asia and 5th in the world after the US, India, UK, and Canada, entering the Startup Ranking website 2020 [10]. The potential for electronic commerce (e-commerce) in Indonesia in 2022 is projected to reach 55 billion to 65 billion dollars. Digitalization has two sorts of edges for MSMEs [11]. Firstly, it facilitates the growth of their businesses because it allows them to succeed in dead-set additional customers and vendors. Secondly, it improves or optimizes operations that lead to reduced costs.

Particularly, the digital economy comprises three primary components, characterized by Mesenbourg: 1) E-commerce: Computers, including the Internet, are used to arrange for the purchase and sale of items. 2) E-business: a broader term than e-commerce, encompassing both exchange-based e-commerce enterprises and traditional businesses that cater to online activities [6]. An e-business can run any parcel of its inner forms online, counting stock administration, hazard administration, back, human assets, among others; E-business

framework: the share of add up to financial framework utilized to back e- trade forms and conduct e-commerce exchanges [12]. It includes e-business and e-commerce equipment, software, media transmission networks, back-end administrations, and human resources. Computers, switches, and other obedient equipment, wire, and optical communications and organize channels, framework and applications program, back administrations, such as web location advancement and facilitating, counseling, electronic installation, and certification services, and human capital, such as programmers, are examples of e-business foundation [13]. The digital economy supports existing economic operations. The digital economy in Indonesia appears to have the potential to enhance economic growth. With the aid of this technology, local Indonesian products can gain access to the global market. From the micro to the macro, the digital economy is expected to increase product and service competition. Indonesia has a Micro, Small, and Medium Enterprises (MSMEs) sector that may function as the country's economic backbone and help its recovery amid the Covid-19 pandemic's economic instability. Micro, Small, and Medium Enterprises (MSME) are business groups that account for a large part of Indonesia's economy [14]. With the knowledge of the current situation of the places as mentioned above, what are the recommendations and suggestions for these provinces to fully utilize the digital economy for improving the MSMEs sector, maximizing the digital economy benefits, advantages and profits? It is important to have these recommendations in order to achieve the gains of the whole provinces and the MSMEs sector, whether economically or socially.

2. RESEARCH METHOD

This study is focused on a set of research questions, one of which is to assess the potential and constraints that MSMEs face during the Covid-19 pandemic using digital tools. The SWOT matrix was used to assemble strategic aspects in the research, and the qualitative technique was utilized to find out what possibilities and obstacles can become commercial prospects through digital. This exploratory study aims to design a development strategy based on MSMEs' internal and external conditions.

3. DIGITAL TECHNOLOGY CONNECTED WITH MSMEs

It must be admitted that the Covid-19 pandemic has reduced purchasing power since the public has reduced outdoor interactions to suppress the spread of the pandemic. Thus, many consumers then distance and divert purchases digitally. The impact of MSMEs is that they have to close their businesses due to declining purchases and are still dependent on sales outside the network (offline) [15]. Up to a few MSME sectors that have not adapted digitally are affected by closing their outlets. Nonetheless, the Covid-19 pandemic has indirectly influenced new business practices in Indonesia [16]. The shift from an offline to a digital firm, often known as the phenomena of digital entrepreneurship, is the change. The use of social media and a marketplace (intermediary) can be a concept to help actors in MSMEs gain more marketing access [17]. Therefore, an entrepreneurial model is needed that can adapt to technological advances. It is what then gave birth to the digital entrepreneurial model. This business model stems from digital technology and entrepreneurship, producing a new characteristic phenomenon in business matters. In this case, the role of digital technology has a significant influence on the new business units created [18]. Emerging technologies use the power of cooperation and collective intelligence to build and implement more robust and long-lasting entrepreneurial endeavors. Nonetheless, digital entrepreneurship has four dimensions: digital actors (who), digital actions (what), digital motivation (why), and digital organization (how) [19].

According to Zimmerman, The phrase digital economy is often used to refer to the global impact of rapid advances in information and communication technologies on socioeconomic situations. [20]. This notion becomes a way of looking at how the macro and micro-economies interact with innovation and technological progress. Goods and services are affected when developed, produced, sold, or supplied, depending on the extent to which digital technology can reach [21]. Companies in the digital economy provide services in response to specific requests or customized offers, referred to as personal, individual, or private offerings [22]. A suitable regulatory framework is required for the digital economy to benefit society and business actors, ensuring a competitive and balanced market climate in the development of

product and innovation ideas. The digital economy's characteristics include worldwide trading and eliminating many intermediary chains [23]. It is hoped that there will be no entrance barriers, allowing market participants to be more flexible.

In order to improve consumer protection, it is critical to strike a balance between the interests and capacity of firms, particularly small and medium-sized businesses. If the regulations are uneven, it may result in a high turnover rate among business players, excluding competitors from circulation [24]. It has the potential to limit consumers' freedom of choice. As a result, consumers' and corporate actors' rights and obligations must be balanced on both sides. In the digital economy, where geographic location is no longer significant, specific platforms are the main keys, network expansion, and big data are all important, there are at least four major elements associated with digital economic activity [25]. Economic digitalization has been shown to have resulted in a variety of changes, with the digital economy at least giving benefits in terms of achieving efficiency, effectiveness, lowering costs of production, collaboration, and integrating one party to another. As a result, digital economic transformation is being used as an alternative strategy as a new economic growth engine.

Digital technologies ought to be thought about as an Associate in Nursing integral a part of social and economic activities, making general conditions (foundation) to make sure traditional conditions for up the potency of business, government activities, and the existence of the population [26]. They link along with all sectors of the market economy, conducive to its stabilization and balanced development. The efficiency of their functioning is manifested within the acceleration of the reproduction process, which inevitably ends up reducing costs, maximizing profits, growth of value, and national wealth of the country [21]. The digital economy includes new phenomena such as blockchain-based networks, digital platforms, and social media, as well as e-businesses (such as e-commerce, parts of traditional industries that use digital-enabled technologies in Industry 4.0 or precision agriculture), software, app development, and other content and media creation businesses, and associations [23]. By this broad definition, digital includes more than just IT infrastructure or a narrow focus on online/mobile presence; it also includes an

integrated set of opportunities that leverage technologies such as automation, Agile techniques, customer-centric product and experience design, the Internet of Things, and advanced analytics.

4. FINDING AND DISCUSSION

Micro, small, and medium-sized businesses are industries touched by the Covid-19 (MSMEs). One of the effects was a loss in income of 84.20 percent, with a decrease of 82.29 percent in Large Medium Enterprises [27]. It has resulted in MSMEs having to cut the number of workers they have. Micro, Small, and Medium Enterprises (MSMEs) that are digitally productive are vital to the country's economic recovery. The Ministry of Cooperatives and SMEs data shows that the number of MSMEs in Indonesia reached 64.2 million in 2018, accounting for approximately 99.99 percent of all business players in the nation. The credit ratio for MSMEs is expected to reach 30 percent by 2024, as directed by President Joko Widodo in early April 2021 [28].

This SWOT analysis is the beginning of the strategy formulation process that will be carried out to help the development of MSMEs in Indonesia, especially in the digital economy. This analysis requires MSME entrepreneurs to implement a strategy that is appropriate by looking at external opportunities and internal strengths and paying attention to external threats and internal weaknesses. This matrix will clearly describe how the conditions are faced by MSMEs in Indonesia during the pandemic COVID-19. This matrix is used to help determine the right types of strategies adapted to the conditions of MSMEs in Indonesia, especially in the Kulon Progo Regency.

a. Internal Factors

1) Strength

Confidence in themselves to continue to grow and develop is aided by the Department of Cooperatives and Small and Medium Enterprises of the Kulon Progo Regency government's many empowerment programs, particularly on the use of information technology (digital).

2) Weakness

Human resources, both in the government and among MSMEs' owners, are in short supply and poorly equipped to conduct digital-based programs and activities.

b. External Factors

1) Opportunities

Lots of natural resources; Many governments human resources of productive age; Many partners are working together to develop MSMEs; More than one featured product.

2) Threats

Other regional competitors are more advanced in using digital; Government regulations that are still not optimal in helping digital opportunities for MSMEs.

Article 6 of the Kulon Progo regent's decree number 63 of 2010 on cooperatives and micro, small, and medium businesses' empowerment, the MSME development plan is conducted in the form of institutional development, business growth, and financing [29]. In institutional development, the local government of Kulon Progo Regency through the Kulon Progo Regency Cooperative and MSMEs Service has tried to encourage all MSMEs to be incorporated in cooperatives and business groups with the aim that the distribution process of production results can be controlled properly. It is coaching to groups in the community, such as farmer groups or collaborative business groups.

Four strategies are available from the SWOT analysis, namely SO, WO, ST, and WT strategies. The SO strategy in SWOT is a plan for taking advantage of numerous opportunities (O) by exploiting or optimizing one's strengths (S). In comparison, the WO strategy is employed to the best of its ability to minimize existing weaknesses (W) in order to take advantage of diverse chances (O). The ST approach reduces various threats (T) that may be present in the business by leveraging or optimizing strengths (S). Finally, the WT strategy minimizes or avoids dangers by reducing weaknesses (W) (T). The MSME development plan implemented by the local administration of Kulon Progo Regency is achieved in the following programs based on the SWOT analysis of MSMEs:

- a) Production training for MSMEs
- b) Increase the ability of producers to innovate on their products
- c) Providing MSME certification assistance
- d) Packaging training to make it more interesting
- e) Provide training on export and import
- f) Collaborating with parties banking
- g) Encouraging residents to become members

of the cooperative

- h) Collaborating with universities to provide training regarding the digitalization
- i) Capital assistance through credit opportunities business through market banks and social assistance
- j) Provide the digital marketplace

The government of Kulon Progo Regency has put in place programs to aid the development of MSMEs in the region. The Department of Industry, Trade, Energy and Mineral Resources and the Department of Cooperatives and MSMEs carry out the Kulon Progo Regency Government's SMEs development program. When it comes to the priority and responsibility of the two governmental bodies, the Department of Industry, Trade, Energy, and Mineral Resources is more concerned with industrial growth. At the same time, the Department of Cooperatives and MSMEs is more concerned with business development. Article 6 of the Kulon Progo regent's decree number 63 of 2010 about the empowerment of cooperatives and micro, small, and medium enterprises regulate certain forms of collective and MSMEs empowerment. However, in Kulon Progo, the digitization of MSMEs is still far from complete, with only around 25% of the population being digitally literate. Human resources, insufficient infrastructure, and access to the internet network, which is still difficult for business players to access, are all stumbling blocks.

5. CONCLUSION

The growing growth of the business world in Indonesia cannot be separated from the role of micro, small and medium enterprises (MSMEs). MSMEs contribute significantly to employment, accounting for 99.6% of total employment. On the other hand, MSMEs account for 56.7 percent of the gross domestic product (GDP). Small and medium-sized businesses (MSMEs) are one of the most important drivers of economic development. One of the sites with significant promise is Kulon Progo Regency, one of the MSMEs that has the potential to continue to thrive in Yogyakarta Province's Special Region. Based on the research findings and discussion of the MSME development plan in the Kulon Progo District Village, it can be concluded that the Kulon Progo District Government has developed some programs targeted at assisting MSMEs in overcoming the challenges they encounter. The empowerment of

MSMEs in the Kulon Progo Regency is carried out in business development, institutional development, and financing. The digitization of MSMEs in Kulon Progo has not become the government's main focus or main goal.

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